

John Y. Ferry, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION
BOARD OF TRUSTEES

DATE: AUGUST 19, 2008

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

John Y. Ferry
John Scales
James Lee
Mike Brown
Dan Lofgren
Gayle McKeachnie

STAFF

Kevin S. Carter
Tom Faddies
Dave Hebertson
Doug Buchi
LaVonne Garrison
Ron Carlson
Lisa Schneider
Elise Erler
Kay Burton
Kim Christy
John Andrews
Rodger Mitchell
Scott Chamberlain
Ron Torgerson
Randy Harden
Cris Rasmussen
Jeff Roe
NormaLee McMichael
Rick Wilcox

OTHERS IN ATTENDANCE

Karen Rupp, State Office of Education
Tim Donaldson, State Office of Education
Margaret Bird, State Office of Education, UofU, USU
Paula Plant, State Office of Education
Neil Rimbey, University of Idaho
Sara Watts, UII
Kim Frost, UII
Christopher Thomas, HEAL Utah
Lee Peacock, Utah Petroleum Association
Mel Brown, Utah Legislature
Alan Gardner, Washington County
Mark Ward, Utah Association of Counties
Natalie Gordon, Utah PTA
Mary Draper, HEAL Utah
Jessica Kendrick, HEAL Utah
Sophia Nicholas, HEAL Utah
David Wolfgram, Ivory Homes
David Haslem, Uintah County
Naomi Franklin

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Chairman Ferry welcomed Board members, Staff, and guests to the meeting.

1. Welcome to New Board Member

This was postponed until next month.

2. Approval of Minutes

The Board approved the Board minutes of June 12, 2008.

Lee / Scales. Unanimously approved.

“I move we approve the Board minutes of June 12, 2008.”

Roll Call:

Mr. Scales - - yes	Mr. Lee - - yes
Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. McKeachnie - - yes	Mr. Ferry - - yes

3. Confirmation of Upcoming Meeting Dates

The Board, without motion, confirmed the upcoming meeting dates:

September 11 - - Salt Lake City
October 22, 23 (change from 23, 24) - - Salt Lake City
November 18 (change from 13th) - - Salt Lake City
December - - No meeting

4. Chairman's Report

a. Beneficiary Report

Tim Donaldson gave the beneficiary report. He reported on the comments the beneficiaries have been submitting to the Bureau of Land Management (BLM) on its resource management plans. The beneficiaries submitted comments separate from Trust Lands and the State of Utah. They do coordinate their comments with TLA before sending them. They have commented on issues such as access, land exchanges, economic impact, etc.

Mr. Donaldson also updated the Board on the Investment Advisory Council and the permanent fund. He also noted there will be a constitutional amendment on the ballot this November dealing with investments by the Treasurer that will amend the stock and bond investments.

Mr. McKeachnie noted that, in the executive branch of government, they have the Public Lands Policy Coordination Office. The comments on RMPs that have been sent by the State Board of Education have "turned the world upside down" because BLM requires all state agencies to submit comments through the Public Lands Policy Coordination Office. If we do not speak as a state with one voice, we give up any leverage we have on our comments. In the last three years, all the agencies making comments have made them through the Public Lands Policy Coordination Office. That office has now had calls from the BLM asking what to do with the Board of Education's comments. There has to be the coordination of the comments to make them effective. Mr. McKeachnie suggested that the beneficiaries talk with the Public Lands Policy Coordination Office in the future on making comments.

Ms. Bird stated they have been doing their own comments for about 15 years, and no one from the Public Lands Policy Coordination Office has ever contacted them to do it any other way. Mr. McKeachnie noted they have concluded the State was not making any difference in its comments until they started making coordinated comments. Ms. Bird stated her office will contact the State Public Lands Policy Coordination Office soon.

Director Carter noted that the Public Lands Policy Coordination Office also has the responsibility to "coordinate". Some of the comments are very opposite of each other. In trying to coordinate them, some of the critical comments can be left out. That is the concern of the beneficiaries and why they comment on their own. He noted it makes sense to coordinate them. Ms. Bird noted the State has a fiduciary duty in its comments. She will work with that office on coordinating comments.

4. Chairman's Report (cont'd)

b. Board Policy 2008-02 - - Audit Manager Reporting Relationship

Director Carter reviewed the following policy with the Board:

*The Board of Trustees
of the
School and Institutional Trust Lands Administration*

☒ *New Policy*

☐ *Amends Policy No.*

☐ *Repeals Policy*

Policy Statement No. 2008-02

*Subject: Board Review of Certain
Termination Actions*

The Board of Trustees of the School and Institutional Trust Lands Administration met in open, public session on August 19, 2008, and by majority vote declares the following to be an official policy of the Board:

1. The Trust Lands Management Act assigns all personnel administration responsibility to the Director.
2. There is the possibility that an audit finding which is not acceptable to the Director may not be properly presented to the Board of Trustees through threat of termination of audit staff serving in an "at-will" capacity.
3. In order to ensure that critical information is presented to the Board of Trustees, thereby enabling them to fulfill their fiduciary responsibilities, it is the policy of the Board that the Director consult with the Board prior to taking any disciplinary or termination actions against audit staff serving in "at-will" positions.

4. Chairman's Report (cont'd)

b. Board Policy 2008-02 - - Audit Manager Reporting Relationship (cont'd)

There was discussion among the Board members regarding this policy. Some of the members had some concern with the word "consult" and didn't feel it was quite strong enough.

McKeachnie / Scales. Motion approved.

"I move we approve this policy."

Roll Call:

Mr. Scales - - yes	Mr. Lee - - no
Mr. Brown - - yes	Mr. Lofgren - - no
Mr. McKeachnie - - yes	Mr. Ferry - - yes

c. Consideration/Approval of FY 09 Incentive Objectives

Director Carter gave the Board a draft copy of the proposed FY 09 Incentive Objectives as follows:

Revenue Goal: Worth 20% of Total Bonus: \$30,000

Revenue Component: Recognizing that the majority of the income potential in any given year is dependent upon prices for natural gas, the revenue target will be a sliding scale relative to the average price of natural gas (using the Uinta Questar Pipeline QPC as the market metric), minus the operating budget (not including capital expenditures) appropriated by the legislature for Fiscal Year 2009, as presented below:

Measurement: The average price of natural gas will be determined by summing the first-of-month contract price for gas for each month beginning July 2008 and ending June 2009 and dividing the sum by 12. The appropriated budget for FY 2009 is \$9,971,900. Net revenues as presented in the following table:

4. Chairman's Report (cont'd)

c. Consideration/Approval of FY 09 Incentive Objectives (cont'd)

<u>Average Natural Gas Price</u>	<u>Revenue Target</u>
Less than \$5 per MCF	\$ 81,000,000
Between \$5 per MCF and \$7 per MCF	\$ 96,000,000
Between \$7 per MCF and \$9 per MCF	\$116,000,000
Between \$9 per MCF and \$11 per MCF	\$136,000,000
Between \$11 per MCF and \$13 per MCF	\$156,000,000
Greater than \$13 per MCF	\$176,028,000

All of the eligible bonus will be paid for reaching or exceeding the Revenue Target. Partial bonus will be earned for reaching proportionate parts of the Revenue Target. Reaching 75 percent of the Revenue Target will authorize 33 percent of the eligible bonus; reaching 90 percent of the Revenue Target will authorize 66 percent of the eligible bonus.

Performance Goal: Worth 80 % of Total Bonus: \$120,000

Develop a Five-Year Strategic Plan

It has been a number of years since the Administration has prepared a strategic plan. Previous plans related to an agency that was relatively new and in the process of exploring different business models. The agency has matured significantly since the last plan was developed. New direction is needed to guide the agency into the next phase. The plan should detail where the agency should aspire to be in five years, actions to be taken to achieve that outcome, anticipated obstacles to reaching the target, and strategies to overcome anticipated obstacles.

Task One: Worth one-third of the Performance Goal: \$40,000

The plan should provide a mutually accepted foundation to the status quo, which can serve as a base from which to establish targets:

- * prepare and provide a comprehensive Administration overview to the Board for discussion during the October Retreat. The overview will include:
 - * an inventory of non-resource assets (i.e., personnel, facilities, etc.)
 - * an analysis of the top revenue-producing leases/contracts
 - * a SWOT analysis
 - * management succession plans

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4. Chairman's Report (cont'd)

c. Consideration/Approval of FY 09 Incentive Objectives (cont'd)

Task Two: Worth one-third of the Performance Goal: \$40,000

The plan should address global issues affecting the Agency's ability to achieve desired outcomes:

- * Business strategies during market downturns
- * Strategies to enhance alternative energy development on trust lands
- * A programmatic review of the Trust Lands Management Act to develop modifications that will facilitate moving on to the next level of performance
- * A comprehensive review of our enterprise Business System to address unmet needs and opportunities that may be realized by migrating to a state-of-the-art platform
- * A comprehensive public relations program to
 - * Assist in the public perception that we are "trust" lands and not "public" lands
 - * Develop positive press relations

Task Three: Worth one-third of the Performance Goal: \$40,000

The plan should also include specific components for each of the agency groups outlining how the group will preserve and enhance existing business opportunities, develop new income opportunities, address the SWOT analysis, and growth/re-assignment needs to become the Agency envisioned in five years.

- * Oil and Gas
- * Coal and Other Minerals
- * Planning and Development
- * Surface
- * Administration (IT, Auditing, Budget and Accounting, Records, Block Planning, Legal)

4. Chairman's Report (cont'd)

c. Consideration/Approval of FY 09 Incentive Objectives (cont'd)

The Board discussed this proposal at some length. There were some questions regarding the amount of total bonus. Director Carter stated we ask for an appropriation for a specific amount. The legislature appropriated \$120,000. Mr. Lee asked if the Board is satisfied that the bonus number is at the correct level? Director Carter noted there has been discussion in the past regarding what it should be and should there be more people involved in it. Mr. Scales stated the Board Incentive Objective Committee felt that it should stay at \$150,000 this year and discussion had at the Retreat regarding what it should be and who should be included. The Board felt comfortable with the idea of discussing it further at the Retreat. Mr. Brown stated he feels the Board should look at the actual participants in the pool and who should be included. Director Carter reviewed that he understands the floor of the bonus pool is to be \$150,000, with consideration of the actual amount to be discussed at the Retreat.

Chairman Ferry reviewed the remaining goals with the Board. He noted the Committee felt we should look at a five-year plan this year and keep updating it every year. Mr. Brown noted that the Board and Director have to be committed to a strategic plan to keep the Staff committed to it. Chairman Ferry stated the Board will become more involved in this plan, beginning with the Retreat in October.

Mr. Lee commented that he has never seen a strategic plan that worked. The bottom line in business is "are you bringing in the income and meeting your obligations". He is willing to see if this will work, but he has his doubts. Mr. Scales stated he thinks what will make it work is that the bonus will be paid from this plan. The objectives next year will be very similar to what they have been in the past, plus an update of the strategic plan.

The Board discussed the philosophy of doing a plan at some length. Mr. Lofgren stated this may look like we are paying Staff to develop a plan that should be being done anyway. Mr. Scales stated this plan will couch how bonuses in the future are paid based on where the Board thinks Trust Lands is going in the future. We have to be looking beyond this year when making goals. This is a plan that should be ratified by the Board. During the planning process and the Retreat, some goals may be identified that need to be accomplished this year.

Director Carter stated Staff will provide what is noted in Task One at the Retreat in October, and we can then consider what things need to be included in the Table of Contents, which would include items in Tasks two and three. This document would be the objective, and the Retreat would be the opportunity to add an appendix to it.

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4. Chairman's Report (cont'd)

c. Consideration/Approval of FY 09 Incentive Objectives (cont'd)

Mr. Lofgren stated he feels he could agree with it more if the proportions of the bonus were different and also the opportunity to amend some of the tasks that need to be done and the fact that the plan will have some milestones in it. Chairman Ferry noted that it has to have enough tangibles in it that we are able to defend it to the legislature.

Mr. McKeachnie stated that, in reality, it is the responsibility of the Board to have a plan. It is a little awkward to reward the Administration for doing the Board's job. Leadership is the Board's responsibility. Management is the Administration's responsibility and has to do with carrying out the plan. This is merging those responsibilities. However, it's hard to do a plan without Staff's help.

Lee / Scales. Motion approved.

"I move that we approve the plan submitted with one consideration and that is that the total bonus amount and number of people included can be amended."

Roll Call:

Mr. Scales - - yes	Mr. Lee - - yes
Mr. Brown - - yes	Mr. Lofgren - - no
Mr. McKeachnie - - yes	Mr. Ferry - - yes

5. Director's Report

a. Surface Group Report

I. Grazing Fee Changes - - Introduction of Proposed Formula to Determine Annual Fees

Mr. Christy introduced this item to the Board. Staff has been working on this since March, 2005, when the Board approved changes to the agency's grazing fees. The Board has the obligation to set the grazing fee every year. Mr. Lee noted that, when Mr. Christy and his Staff started this process, they were very careful in contacting the people this would affect. This was the best way to do a task like this, and it has worked well. He commended Staff for doing it this way. Mr. Christy noted we have come close to a 100 percent increase in grazing funds since this program was started.

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5. Director's Report

a. Surface Group Report

I. Grazing Fee Changes - - Introduction of Proposed Formula to Determine Annual Fees (cont'd)

Mr. Christy introduced Dr. Neil Rimbey, a consultant who has been helping Staff with this. Dr. Rimbey gave the Board a power-point presentation on they have arrived at the formula.

There was some discussion about the Board setting the fee each year. It was noted that, if this formula is approved, that process could be changed. This future formula should not be applied until after the thresholds of fee adjustments previously approved by the Board are realized.

Mr. Scales asked, if we go by this formula, are we getting less money than the private lessor? Dr. Rimbey stated in some cases we are. Mr. Christy explained why we charge different rates on scattered sections and block lands. There are higher grazing values on the blocks than on scattered sections. Mr. Lofgren noted there is volatility in the formula, but the lessee wants predictability. What is the tolerance of this in the formula and the lessee's ability to pay? Mr. Christy stated they have found security with these permits are very important to the lessee. We have a 15-year term, and other states just have a 10-year term. He thinks there is a higher level of tolerance based on what is paid and the term of the lease. He noted that, when we raised the grazing fee, we committed to putting 10 percent back into improvements on the lands. This has made a huge difference in this program.

The Board generally felt comfortable with the Agency's recommendations conceptually, so Staff will now solicit input from other industry leaders and stakeholders before bringing it back to the Board for final consideration at a later time.

b. Report on Objective A - - Next Land Exchange Package

Mr. Andrews reported to the Board on the work done on this objective. He noted that areas evaluated included San Juan County, the San Rafael Swell, and Washington County. Consultations included participation on Executive and Steering committees of Vision Dixie, work meetings with BLM Dixie Field Office Manager, multiple county commission meetings with draft maps, and engaging municipal governments in each county.

Mr. Lee stated he thinks the Staff has done great work on this, but the likelihood of this happening is very remote; and possibly we should have thought more about it before making it an objective. Director Carter noted much of this work has a good shelf life.

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5. Director's Report (cont'd)

c. Report on Objective B - - Optimize Agency Operations

Mr. Carlson reported to the Board on the work done on this objective and reviewed the findings through a power-point presentation. He reported that Staff has found that all programs are operating in the black.

Mr. Christy reported on the portion of the objective regarding out-sourcing some of our work. Staff has basically concluded that we should keep most of our work in-house.

Mr. Burton reviewed the block issues of this objective to determine if there are outsourcing possibilities. He stated three of the blocks do have some potential for outsourcing. However, there are reasons why we probably should not proceed at this time with those.

This was for information to the Board at this point. Staff believes the objective has been completed.

d. Report on Objective C - - Assess Data Sources Flow

Mr. Carlson reported to the Board on Objective C. This objective has previously been reviewed with the Board. Our goals are to:

- * Reduce labor
- * Reduce errors
- * Improve customer service

Staff's recommendations on this objective are:

- * Complete conversion to fillable forms
- * UII develops Payment Express
- * Implement online forms

The Staff feels this objective has been completed. This was for information to the Board.

5. Director's Report (cont'd)

e. Report on Objective D - - Oil and Gas Reserve

Due to the proprietary nature of information involved in this objective, the Board discussed this item in closed session.

Brown / McKeachnie. Unanimously approved.

"I move we go into closed session for the discussion of proprietary information."

Roll Call:

Mr. Scales - - yes

Mr. Lee - - yes

Mr. Brown - - yes

Mr. Lofgren - - yes

Mr. McKeachnie - - yes

Mr. Ferry - - yes

The Board went into closed session at 12:20 p.m. Those in attendance were Board members, Kevin Carter, John Andrews, LaVonne Garrison, and a representative from Gustavson Associates. The Board returned to open session at 1:20 p.m.

f. Report on Objective F - - Sensitive Lands Issues

Mr. Andrews gave the Board a report on the objective via a power-point presentation. After much discussion of this issue, Mr. Andrews noted that the conclusion Staff came to is that we need to be careful in final disposition of lands in order to fulfill our fiduciary responsibility. Staff basically feels like the Colorado model was not right for Utah.

Mr. Lee noted he felt the analysis is correct and that it meets the objective. He doesn't think we need any other process other than what is available to us now. If property is unique enough, there will be many people telling us so. Director Carter noted that a year ago there was much interest in seeing how we could diffuse some very controversial issues. Those things have not sustained themselves, however; and he thinks it is probably not wise to bring this up again.

5. Director's Report (cont'd)

g. Report on Completion of FY 2008 Incentive Objectives

Director Carter went through each objective for FY 2008 and explained what Staff has done on each individual one as follows:

1. Short-term Goal Worth 40 percent of total bonus: \$60,000
 - * Revenue component - - the Administration feels this has been successfully accomplished.
 - * Production component - -
 - * Coal and other minerals - - successfully accomplished
 - * Surface Group - - successfully accomplished
 - * Planning & Development - - although the Administration has completed the specific language of the objective ("to pursue sale of the Cross Hollow Hills parcel for in excess of \$30 MM), the Board may choose to defer awarding all or some portion of this bonus pending consummation of the transaction.
2. Long-term Goal: \$90,000
 - A. Develop Land Package for Next Land Exchange - - Staff feels this was completed
Worth: \$9,000
 - B. Evaluate Opportunities to Optimize Agency Operations - - Staff feels this was completed
Worth: \$13,500
 - C. Assess Data Sources Flow - - Staff feels this was completed
Worth: \$9,000
 - D. Oil and Gas - - Staff feels this was completed
Worth: \$22,500
 - E. Identification, Evaluation & Protection of Potential Commercial Properties - -
Staff feels this was completed
Worth: \$13,500

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5. Director's Report (cont'd)

g. Report on Completion of FY 2008 Incentive Objectives (cont'd)

- F. Re-evaluate Surface Land Sale Program , Including Policies for Determining Sales Targets and Policies for Conveyance/Protection of Sensitive Lands - -
Staff feels this was completed
Worth: \$22,500

Chairman Ferry congratulated the Director and Staff on completing these goals. The Board went into closed session for the discussion of personnel issues.

Scales / Lee. Unanimously approved.

“I move we go into closed session for the purpose of discussing the performance and character of individuals and proprietary information.”

Roll Call:

Mr. Scales - - yes	Mr. Lee - - yes
Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. McKeachnie - - yes	Mr. Ferry - - yes

The Board went into closed session at 2:43 p.m. Those in attendance were Board members and Director Carter. The Board excused Director Carter from the session at 3:00 p.m. The Board stayed in closed session for the discussion of the next item.

h. Report on BLM Planning Efforts

At 3:37 p.m. the Board remained in closed session from the previous items. This item was the discussion of proprietary information. Those in attendance at this session were Board members, Director Carter, John Andrews, and LaVonne Garrison. The Board returned to open session at 4:00 p.m.

5. Director's Report (cont'd)

i. Presentation by HEAL Utah

Mary Draper, of HEAL Utah, appeared before the Board. They are a 501-3-C organization in Utah, and she is a volunteer. She has become familiar with our work through her work as an attorney. They feel the way people treat the land is a great legacy for our children. The transaction that caught the attention of their organization has to do with an initial lease turning into a purchase with Emery County. Emery County wants to develop an industrial park. One of the tenants they want to site there includes a uranium mill and nuclear plant, as they understand it. She noted she doesn't think we want to saddle our Utah citizens and schoolchildren with what might turn out to be a huge transaction.

Christopher Thomas, also from HEAL Utah, outlined some of their concerns regarding the transaction with Emery County. They have a question as to whether this transaction really maximizes our return on the land because of the option on the land until 2010. They feel an open-bidding process could better maximize the returns to the Trust. They are also concerned with waste from a nuclear power plant if it were sited there. He believes Trust Lands has the opportunity to be proactive and prevent another clean-up issue like the tailings in Moab. They would like us to consider opening up the bidding process to companies who will want to locate in the Emery County industrial park. They also would like any nuclear plant to guarantee a place for disposing of the waste before allowing them to locate there. He asked the Board to carefully examine this site.

Mr. Lee noted that he understood from our last meeting with Emery County that it would be a uranium reduction mill and not a nuclear power plant. Mr. Thomas noted he has a copy of an option agreement between Emery County and a company that wants to build a nuclear power plant on 1600 acres. Mr. Lee asked about the status of the lease with Emery County. Director Carter noted the county is still reviewing the draft. The Board will get to see the lease before it is signed. Mr. Lee noted he thinks the probability of a power plant going in there is very slim. Director Carter noted we went through a competitive process before we leased the land to the county, and no one came forth to bid on it.

j. Minerals Group Report

I. Update on Oil Shale Issues

This item was postponed until next month.

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5. Director's Report (cont'd)

k. Development Group Report

I. Ivory Homes Modified Casita Percentage Participation Amendment
Extension and Proposed Modified Estate Percentage Participation
Amendment

Mr. Buchi reviewed this issue with the Board. In May, 2008, the Board approved a four-month extension to its previously approved six-month extension reduction in SITLA's percentage participation for the sale of Casitas product in Hidden Valley. Mr. Buchi noted that additional time is needed to work through some of the complexities of the contract. Mr. Buchi discussed this matter further with the Board, including the current economic situation in Washington County.

It is Staff's recommendation that the reduced percentage participation on the Casitas be extended up to an additional six months to the earlier of completion of an amended and restated development lease or March 31, 2009. Staff is also recommending the amendment be expanded to include a reduction in the percentage participation on the Estates from 19 percent to 15 percent for the same six-month extension period.

Mr. Lofgren disclosed that he is very familiar with the Ivory Company. He is in a related business, but has no ongoing business arrangement with Ivory. That familiarity does not impact his ability to be impartial in this matter. He feels there is a valid argument in maintaining some momentum in the marketplace at this time. Having reviewed the prior agreement that established the 19 percent, he was troubled with it. He hopes there is an agreement that can be put together that will be mutually beneficial to both parties. He is comfortable that this reduction is the best things for us to do at this point.

Scales / Lofgren. Unanimously approved.

"I move we approve the Staff's recommendation."

Roll Call:

Mr. Scales - - yes

Mr. Brown - - yes

Mr. McKeachnie - - yes

Mr. Lee - - yes

Mr. Lofgren - - yes

Mr. Ferry - - yes

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6. Consent Calendar

a. Other Business Arrangement – Running Foxes Petroleum, Inc.

The Board expressed no concern over this OBA, so it is approved as recommended by Staff.

Mr. McKeachnie disclosed a conflict on this item, as he has done business with some of the people who are the owners of Running Foxes Petroleum, Inc.

Notification:

b. FY 09 Proposed Sale Parcels and Revenue Target

The Board had no comments on this proposal.

c. Fee Waiver Report

This was for information to the Board. They expressed no comments.

Meeting adjourned at 4:26 p.m.